

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-7-G

September 1, 2010

IN RE:

Application of Piedmont Natural Gas)	
Company, Incorporated to Have the Terms)	
of the Natural Gas Rate Stabilization Act)	SETTLEMENT AGREEMENT
Apply to the Company's Rates and Charges)	
for Gas Distribution Services)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by Public Service Commission of South Carolina ("Commission") Order Nos. 2005-491, dated September 28, 2005, and 2005-567, dated October 13, 2005, the Commission established a baseline for PNG under the Natural Gas Rate Stabilization Act (the "Act") and approved certain accounting adjustments proposed by ORS and PNG;

WHEREAS, pursuant to S.C. Code Ann. § 58-5-455 (Supp. 2009), PNG filed its Quarterly Monitoring Report and Proposed Rate Changes with the Commission on June 15, 2010 for the review period consisting of April 1, 2009 through March 31, 2010 ("Review Period");

WHEREAS, the Report of ORS' examination of PNG's Monitoring Report for the Twelve-Month Period Ending March 31, 2010, pursuant to the Act, was filed with the Commission on September 1, 2010;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and

WHEREAS, following those discussions the Parties have each determined that their interests, and ORS has determined that the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. PNG will implement rates for the twelve-month period beginning with the first billing cycle of November 2010 calculated on the basis of an 11.3% Return On Equity ("ROE") instead of the 12.6% ROE approved by Commission Orders No. 2002-761, 2005-491, and 2005-567.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Schedule 1 (Net Operating Income and Rate of Return); Schedule 2 (Explanations of Accounting and Pro Forma Adjustments); and Schedule 3 (Average Weighted Cost of Capital).

3. The Parties agree that PNG will adopt the accounting adjustments of ORS as set forth in Schedule 2 as attached to this Settlement Agreement.

4. The Parties agree that, based upon the accounting adjustments proposed by ORS and adopted by PNG, and the agreement of PNG to implement rates based on an 11.3% ROE, South Carolina ratepayers will realize an increase in current margin rates totaling \$750,000. As shown in the ORS staff report, this equates to a reduction of \$2,405,000 for South Carolina ratepayers when compared to rates calculated on PNG's authorized 12.6% ROE.

5. The Parties agree to a decrease in demand and commodity cost of \$918,380, comprised of a decrease in demand cost over recovery of \$512,264 and a decrease in commodity cost of \$406,116.

6. This decrease of \$406,116 in commodity cost is due to a reduction in the lost and unaccounted for ("LAUF") factor from 2.16% to 1.77%. (See Schedule 2, Adjustment 19).

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. Should the Commission decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

9. This Settlement Agreement shall be interpreted according to South Carolina law.

10. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

September 1, 2010

[SIGNATURE PAGES FOLLOW]

WE AGREE:

Representing and binding the Office of Regulatory Staff

A handwritten signature in blue ink, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

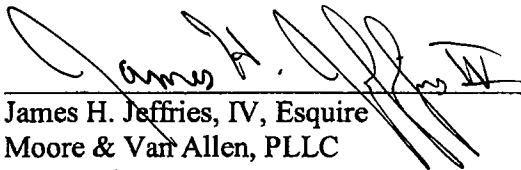
Phone: (803) 737-0575

Fax: (803) 737-0895

Email: nsedwar@regstaff.sc.gov

WE AGREE:

Representing and binding Piedmont Natural Gas Company, Inc.

A handwritten signature in black ink, appearing to read "James H. Jeffries, IV", is written over a horizontal line.

James H. Jeffries, IV, Esquire
Moore & Van Allen, PLLC
100 North Tryon Street, Ste. 4700
Charlotte, NC 28202
Phone: 704-331-1079
Fax: 704-339-5879
Email: jimjeffries@mvalaw.com

Settlement Schedule 2

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2010
Docket No. 2010-7-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (16,543,721)	\$ (18,130,137)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (16,543,721)	\$ (18,130,137)
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (19,898,053)	\$ (19,898,053)
	<u>Total Cost of Gas</u>	\$ (19,898,053)	\$ (19,898,053)
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2010, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (74,514)	\$ (74,514)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(15,940)	(15,940)
c.	To adjust pension costs included in the filing.	206,366	206,366
d.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .23955%.	(238,023)	(247,122)
e.	To decrease expenses for allocations to non-utility activities.	(19,386)	(19,386)
f.	To increase expenses for the Long-Term Incentive Plan.	46,364	46,364
g.	To decrease expenses for the Short-Term Incentive Plan.	(279,275)	(279,275)
h.	To decrease expenses for the MVP Incentive Plan.	(273,305)	(273,305)

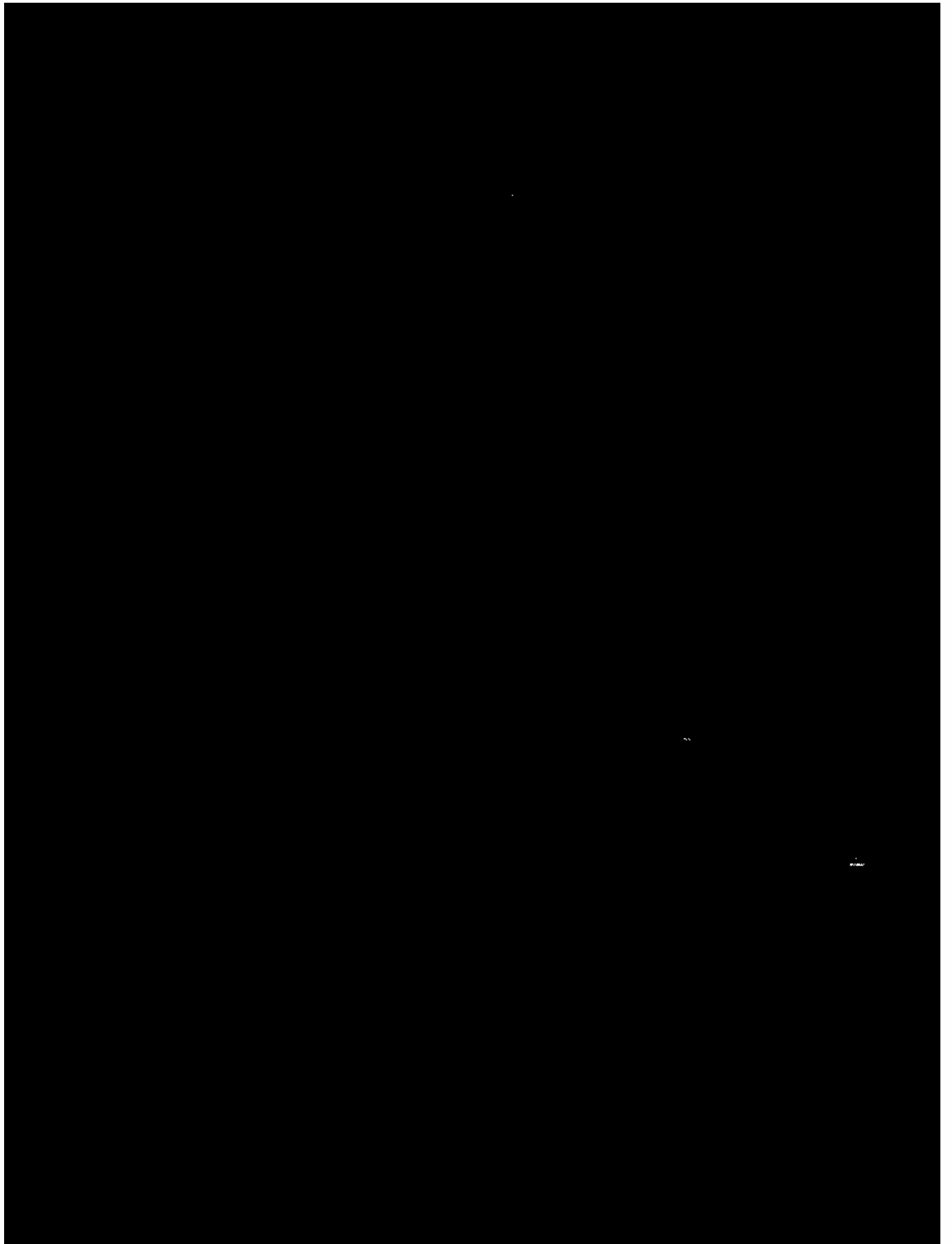
Settlement Schedule 2

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 Twelve Months Ended March 31, 2010
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Line No.	Description	Per Piedmont	Per ORS
	i. To decrease expenses for group insurance.	(5,225)	(5,225)
	j. To increase expenses for the Piedmont Town Center lease.	5,857	5,857
	k. To increase expenses for Piedmont Town Center CAM expense.	1,194	1,194
	l. To increase expenses for amortization of early retirement incentive.	151,229	151,229
	m. To increase expenses for the South Carolina assessment fee.	11,716	17,648
	n. To decrease expenses for items that are nonallowable for ratemaking purposes.	(151,715)	(284,453)
	o. To decrease expenses for Gas Technology Institute dues that are recovered 100% from North Carolina ratepayers.	(31,150)	(31,150)
	p. To decrease expense for the Stock Rescission Fees.	0	0
	<u>Total Operations and Maintenance Expense</u>	<u>\$ (665,807)</u>	<u>\$ (801,712)</u>
4	<u>Depreciation Expense</u>		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 596,650	\$ 567,410
	<u>Total Depreciation Expense</u>	<u>\$ 596,650</u>	<u>\$ 567,410</u>
5	<u>General Taxes</u>		
	a. To decrease property taxes on a going-level basis.	\$ (24,011)	\$ (24,011)
	b. To decrease payroll tax expense.	(64,926)	(64,926)
	c. To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .18698%) for the adjustment made to decrease revenues on a going-level basis.	0	(88,290)
	<u>Total General Taxes</u>	<u>\$ (88,937)</u>	<u>\$ (177,227)</u>
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (202,705)	\$ (269,028)
	<u>Total State Income Taxes</u>	<u>\$ (202,705)</u>	<u>\$ (269,028)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
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<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ <u>1,219,926</u>	\$ <u>778,879</u>
	<u>Total Federal Income Taxes</u>	\$ <u><u>1,219,926</u></u>	\$ <u><u>778,879</u></u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ <u>20</u>	\$ <u>20</u>
	<u>Total Amortization of Debt Redemption Premium</u>	\$ <u><u>20</u></u>	\$ <u><u>20</u></u>
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated increase in customer growth (rate of .452.%) following the adjustments to operating revenues and expenses.	\$ <u>11,228</u>	\$ <u>8,499</u>
	<u>Total Customer Growth</u>	\$ <u><u>11,228</u></u>	\$ <u><u>8,499</u></u>
10	<u>Construction Work in Progress</u>		
	To adjust construction work in progress to reflect the amount attributable to South Carolina.	\$ <u>0</u>	\$ <u>(90,681)</u>
	<u>Total Construction Work in Progress</u>	\$ <u><u>0</u></u>	\$ <u><u>(90,681)</u></u>
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ <u>(116,018)</u>	\$ <u>(133,007)</u>
	<u>Total Cash Working Capital</u>	\$ <u><u>(116,018)</u></u>	\$ <u><u>(133,007)</u></u>
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ <u>1,833,932</u>	\$ <u>750,000</u>
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ <u><u>1,833,932</u></u>	\$ <u><u>750,000</u></u>



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IN RE: Application of Piedmont Natural Gas
 Company, Incorporated to Have the Terms of)
 the Natural Gas Rate Stabilization Act Apply) **CERTIFICATE OF**
 to the Company's Rates and Charges for Gas) **SERVICE**
 Distribution Services)

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James H. Jeffries, IV, Counsel
Moore & Van Allen, PLLC
100 North Tryon Street, Suite 4700
Charlotte, NC, 28202

Jeremy C. Hodges, Counsel
Nelson Mullins Riley & Scarborough, LLP
Post Office Box 11070
Columbia, SC, 29201

Jane Lewis-Raymond, Vice President and General Counsel
Piedmont Natural Gas Company, Incorporated
Post Office Box 33068
Charlotte, NC, 28233


Chrystal L. Morgan

September 1, 2010
Columbia, South Carolina